

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Philippines

### Oilseeds and Products Annual

#### Philippine Oilseeds and Products Situation and Outlook

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**Report Highlights:**

The Philippines is the largest market for U.S. soybean meal (SBM) and the world's top coconut oil (CNO) exporter. Driven by strong feed demand from the expanding domestic hog and poultry industries, SBM imports are forecast to reach a record 2.9 million tons in market year (MY) 18/19. U.S. SBM is expected to lead in market share, enhanced by less competition from Argentina. For CNO, exports in MY 17/18 are forecast up 14 percent from the previous market year to 1.05 million tons, and should increase modestly (3 percent) to 1.08 million tons in MY 18/19 as a result of substitution of CNO with cheaper imported palm oil and improved copra supply.

**Executive Summary:**

Philippine soybean production is negligible and the small amount of imports is purchased largely by one crusher. Copra production in MY 16/17 was revised upwards 100,000 tons to 2.3 million tons (which approximates industry's production forecast for CY 2017) due to less-than-expected damages to coconut farms from typhoons. Output is forecast to rise to 2.6 million tons in MY 17/18 and should increase 100,000 tons to 2.7 million tons in MY 18/19 due to adequate precipitation in 2017 and the early part of 2018.

The domestic hog and chicken industries continue to be the bright segments of Philippine agriculture. Overall, the livestock sector gained 1.1 percent in 2017 from the 2016 level with hog production expanding 1.5 percent. Poultry's output grew 4.6 percent in 2017 compared to the previous year with chicken production gaining 4.3 percent despite an avian flu outbreak in August 2017. In 2017, next to rice (which traditionally accounts for a quarter of farm output), domestic hog and chicken production were the top contributors to Philippine farm output with shares of 15 and 12 percent, respectively. SBM imports in MY 18/19 are expected to reach a record 2.9 million tons due to strong feed demand as both industries continue to consolidate and modernize.

Copra meal exports in MY 17/18 were revised upwards 20,000 tons to 400,000 tons due to improved copra supply. Exports are likely to increase by another 20,000 tons in MY 18/19 as copra production improves anew due to favorable weather conditions.

Local soybean oil (SBO) production and trade are insignificant due to the local preference for CNO or palm oil (depending on price).

CNO is the top Philippine agricultural export. Post revised CNO production upward 165,000 tons to 1.645 million tons in MY 17/18, and projects MY 18/19 production will expand further to 1.7 million tons due to a recovery in copra output. Overall domestic CNO consumption, however, is expected to decline 20,000 tons from the previous market year to 580,000 tons in MY 17/18 and remain at this level in MY 18/19 as a result of substitution for more competitively priced palm oil. CNO exports were revised upwards 200,000 tons to 1.05 million tons in MY 17/18, and projected to increase to 1.08 million tons in MY 18/19.

**Commodities:**

Oilseed, Soybean

Oilseed, Copra

**Production:**

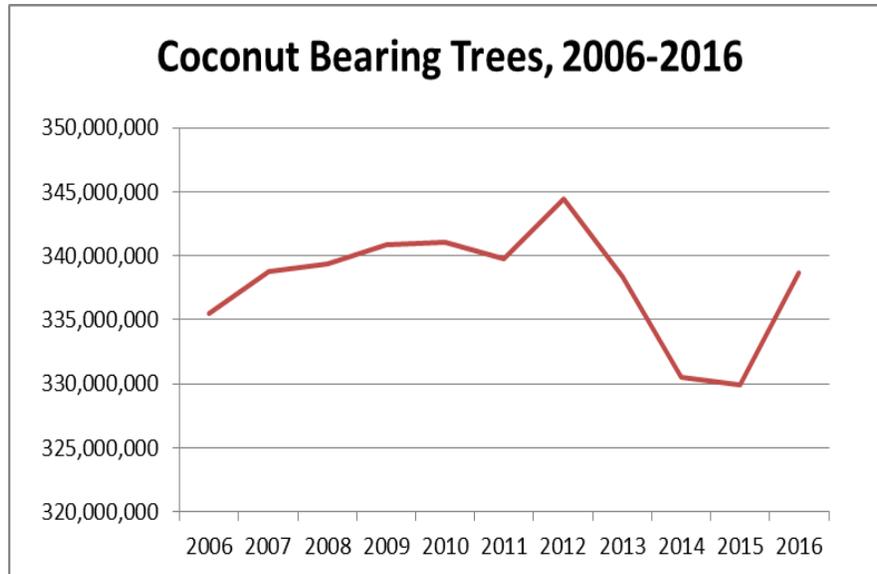
Local soybean production remains minimal and no significant change is expected through MY 18/19.

Philippine agricultural output is largely a function of weather. The country is visited by roughly 20 typhoons annually, the majority of which occur in the second half of each year. In calendar year (CY) 2017, 22 typhoons passed through the Philippines. Compared to previous years, they were less intense and were less damaging to agricultural production. The typhoons brought adequate rains which enhanced the recovery of farms from dry conditions brought about by the El Nino weather disturbance in 2015.

The United Coconut Association of the Philippines (UCAP) revised its earlier copra production estimate from 2.2 million tons to 2.4 million tons in 2017. Post likewise raised its production estimate to 2.3 million tons in MY 16/17 due to favorable weather conditions. Copra production is projected to increase further in the next two years reaching 2.6 million tons in MY 17/18 and 2.7 million tons in MY 18/19 due to adequate rainfall and generally favorable weather conditions in calendar years 2017 and early 2018.

On a long-term basis, copra productivity is constrained by predominantly old and senile coconut palms or trees which constitute an estimated 20 percent of overall Philippine coconut trees. Coconut trees may start to bear nuts after 6-10 years but take around 15-20 years to reach its peak. Coconut trees have a long lifespan (80-90 years).

According to the Philippine Statistics Authority (PSA), coconuts may be found in close to 70 of the country's over 80 provinces, and cover around a quarter of overall agricultural lands. PSA data show that in 2006, there were roughly 335 million coconut bearing trees in the Philippines (following Table). The number increased through 2012 reaching over 344 million trees. Since then, however, the number of palms declined to 330 million in 2015, before increasing to 339 million trees in 2016 (most recent PSA data available). The Philippine Coconut Authority (PCA) continues to pursue a coconut tree fertilization and replanting program to improve productivity.



Source: Philippine Statistics Authority

The coconut is called the "tree of life" and the industry provides livelihood for roughly one-third of the country's population, according to the PCA. Despite its substantial contribution to the Philippine economy, an estimated 60 percent of Filipino coconut farmers remain poor and live below the poverty line. For decades traders at several layers have dominated the industry which has consistently received very low investments levels. As a result, local farmers continue to be saddled with inadequate and inferior postharvest facilities and antiquated transport and distribution systems.

The Philippine Government (GPH) has been promoting palm oil production with modest success.

According to the most recent data available from the PSA, from 45,000 hectares planted in 2010, palm oil area grew to over 60,000 hectares in 2016. Production in 2016 reached 440,000 tons (in fresh fruit bunch) from over 565,000 tons in 2010. According to academe, while the returns from palm oil production are more attractive compared to coconut production, promotional efforts of palm oil have been dampened by opposition from some farmer groups, environmental activists, and the surge in palm oil imports.

#### **Consumption:**

Soybean crush is largely a function of bean imports. There is a lone soybean crusher in the country with limited capacity which imports a small volume of soybeans each year. No significant change in bean crush is expected through MY 18/19.

Trade contacts report the increasing use of full fat soybeans (FFSB) for feed purposes due to attractive pricing. MY 16/17 beans used for feed were revised upward 45,000 tons to 65,000 tons (more than doubling). This trend is likely to continue through MY 18/19.

Copra is the dried meat of the coconut which is pressed to extract CNO. Copra crush was revised upward 30,000 tons to 2.35 million tons in MY 16/17 consistent with upward adjustments made to copra production during the year. For MY 17/18, copra crush is expected to increase 300,000 tons to

2.65 million tons, and then further to 2.75 million tons in MY 18/19, reflecting the expected rise in coconut production as a result of favorable weather conditions and strong CNO export demand.

**Trade:**

Soybean imports in MY 16/17 were revised upwards 58,000 tons to 249,000 tons based on data from the Global Trade Atlas (GTA). Beans from the United States accounted for over 96 percent of total soybeans imported during the year enhanced by low prices.

Overall soybean imports are projected to increase 11,000 tons to 260,000 tons in MY 17/18 with the majority coming from the United States. U.S. beans, however, may face stiff competition from Brazil due to a bumper crop and more-favorable prices. Expanding imports are forecast through MY 18/19 driven by an increasing preference for FFSB for feed use, based on prices.

MY 16/17 copra imports were revised downward 20,000 tons to 100,000 tons on industry's import estimate for 2017. Copra imports in MY 17/18 are likely to decline 40,000 tons to 60,000 tons reflecting higher copra production during the year. No significant change in copra imports is expected in MY 18/19 as copra output is expected to increase from the MY 17/18 level.

**Stocks:**

Soybean ending stocks were revised upward throughout the series due to increased bean importation starting in MY 16/17 as a result of increasing preference for FFSB for feed use, based on prices. Ending inventories are forecast to modestly increase over the next two years.

Copra inventories are largely held by the private sector (e.g., on-farm, traders, and processors). Copra ending stocks were revised upward 50,000 tons in MY 16/17 to 75,000 tons. Similarly, ending inventories in MY 17/18 were adjusted upwards by 50,000 tons to 85,000 tons. Copra stocks are forecast at 95,000 tons in MY 18/19 as copra output should increase during the next two years.

**Policy:**

Executive Order No. 61 (EO 61), signed October 2011, took effect in January 2012 and set Most Favored Nation (MFN) tariff rates on a range of agricultural products. Soybean (HS Code 12.01) and copra (HS Code 12.03) duties remain at 1 percent and 10 percent in 2018, respectively, unchanged from the previous year's level. Soybean imports, however, can enter duty-free under the Agricultural and Fisheries Modernization Act (AFMA) if they are inspected and certified by the Philippine Bureau of Plant Industry (BPI) and the Bureau of Customs (BOC).

Soybean and copra imports originating from countries of the Association of South East Asian Nations (ASEAN) are duty-free in 2018. They are also duty-free if originating from non-ASEAN countries with existing regional Free Trade Agreements (FTAs) including Australia, New Zealand, China, Korea, and Japan, among others. Soybean and copra imports under the ASEAN-India FTA (AIFTA) are subject to a 1 percent and 10 percent duty, respectively.

On December 19, 2017, President Rodrigo Duterte signed the P3.8 trillion (\$74.8 billion) national budget for 2018, which is 12.4 percent higher than the previous year. This year's budget is roughly 25 percent of the projected 2018 GDP and gives priority to infrastructure, education, and the interior affairs

sectors. The GPH plans to ramp up infrastructure spending to at least 5.4 percent of GDP through 2022. These projects are long gestating and are not expected to affect agricultural production and marketing efficiency in 3-5 years. More information on the infrastructure program is provided in the Oilmeals Consumption Section.

For agriculture, the Philippine Department of Agriculture (DA) was allocated a P53.3 billion (\$1.07 billion) budget for 2018, 18 percent higher than the 2017 appropriation.

**Production, Supply and Demand Data Statistics:**

| Oilseed, Soybean<br>Market Begin Year<br>Philippines | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Jan 2017      |          | Jan 2018      |          | Jan 2018      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted   | 0             | 0        | 0             | 0        | 0             | 0        |
| Area Harvested                                       | 1             | 1        | 1             | 1        | 0             | 1        |
| Beginning Stocks                                     | 38            | 38       | 25            | 38       | 0             | 47       |
| Production   | 1             | 1        | 1             | 1        | 0             | 1        |
| MY Imports   | 191           | 249      | 200           | 260      | 0             | 270      |
| Total Supply   | 230           | 288      | 226           | 299      | 0             | 318      |
| MY Exports   | 0             | 0        | 0             | 0        | 0             | 0        |
| Crush  | 161           | 161      | 160           | 160      | 0             | 165      |
| Food Use Dom. Cons.                                  | 24            | 24       | 25            | 25       | 0             | 26       |
| Feed Waste Dom. Cons.                                | 20            | 65       | 20            | 67       | 0             | 69       |
| Total Dom. Cons.                                     | 205           | 250      | 205           | 252      | 0             | 260      |
| Ending Stocks  | 25            | 38       | 21            | 47       | 0             | 58       |
| Total Distribution                                   | 230           | 288      | 226           | 299      | 0             | 318      |
| Yield  | 1             | 1        | 1             | 1        | 0             | 1        |
| (1000 HA) ,(1000 MT) ,(MT/HA)                        |               |          |               |          |               |          |

| Oilseed, Copra<br>Market Begin Year<br>Philippines | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Oct 2016      |          | Oct 2017      |          | Oct 2018      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted                                       | 0             | 3500     | 0             | 3500     | 0             | 3500     |
| Area Harvested                                     | 3500          | 3500     | 3500          | 3500     | 0             | 3500     |
| Trees  | 0             | 331000   | 0             | 331000   | 0             | 331000   |
| Beginning Stocks                                   | 25            | 25       | 25            | 75       | 0             | 85       |
| Production   | 2200          | 2300     | 2300          | 2600     | 0             | 2700     |
| MY Imports   | 120           | 100      | 60            | 60       | 0             | 60       |
| Total Supply                                       | 2345          | 2425     | 2385          | 2735     | 0             | 2845     |
| MY Exports   | 0             | 0        | 0             | 0        | 0             | 0        |
| Crush  | 2320          | 2350     | 2350          | 2650     | 0             | 2750     |
| Food Use Dom. Cons.                                | 0             | 0        | 0             | 0        | 0             | 0        |
| Feed Waste Dom. Cons.                              | 0             | 0        | 0             | 0        | 0             | 0        |
| Total Dom. Cons.                                   | 2320          | 2350     | 2350          | 2650     | 0             | 2750     |
| Ending Stocks                                      | 25            | 75       | 35            | 85       | 0             | 95       |
| Total Distribution                                 | 2345          | 2425     | 2385          | 2735     | 0             | 2845     |
| Yield  | 0.6286        | 0.6571   | 0.6571        | 0.7429   | 0             | 0.7714   |
| (1000 HA) ,(1000 TREES) ,(1000 MT) ,(MT/HA)        |               |          |               |          |               |          |

**Commodities:**

Meal, Soybean

Meal, Copra

**Production:**

Local SBM production remains insignificant relative to overall supply and the industry is dependent on imports. No change in SBM output is expected through MY 18/19.

Copra meal is a by-product of the CNO extraction process. Copra meal output was revised upwards 80,000 tons to 850,000 tons in MY 17/18 consistent with upward adjustments made to copra crush during the year. Output is forecast to further increase 30,000 tons to 880,000 tons in MY 18/19 due to improving copra supply during the next two years.

**Consumption:**

After growing 6.6 percent in the last quarter of 2017, Philippine GDP growth for the entire year reached 6.7 percent, within the 6.5-7.5 percent GPH target, but slower than the 6.9 percent expansion in 2016. The 4<sup>th</sup> quarter expansion was supported by the recovery of the agricultural sector which grew 2.4 percent from the 1.3 percent contraction the prior year. According to the GPH, 2017 GDP growth is among the fastest in Asia after China (6.9 percent) and Vietnam (6.8 percent). GPH planners are confident that GDP will grow 7-8 percent in the medium term (2018-2022) supported mainly by the GPH's P8-trillion (\$160 billion) infrastructure program called "Build, Build, Build". The program is to be partly funded by the recently enacted Tax Reform for Acceleration and Inclusion Act (TRAIN) or Republic Act No. 10963 (see POLICY).

The Bangko Sentral ng Pilipinas or BSP (Philippine Central Bank) has set an inflation target of 2-4 percent between 2018 and 2020. The BSP expects inflation picking up to 3.4 percent this year due to effects of TRAIN before easing to 3.2 percent in 2019. Inflation reached 3.2 percent in 2017 from 1.8 percent in 2016 primarily due to a rebound in oil prices. Inflation reached 4 percent in January 2018.

With over 105 million Filipinos in 2017, the country is the 13<sup>th</sup> largest nation globally. It is also growing close to 2 percent annually, one of the fastest in the region. With a median age of about 23 years, coupled with considerable overseas remittances (estimated at \$25 billion annually), some analysts describe the Philippines as in a consumption 'sweet spot'. This is manifest in the diversification of the Filipino diet, the flourishing food retail industry, and the increasing consumption of livestock and poultry products.

The domestic livestock and poultry industries continue to be the bright spots of Philippine agriculture primarily due to the performance of the hog and chicken industries. Next to rice, which accounts for over a fourth of total agricultural output, hog and chicken production contributed the most to Philippine agricultural output in 2017 with shares of 15 percent and 12 percent, respectively. Both industries continue to consolidate and modernize.

Overall, the livestock sector gained 1.1 percent in 2017 from the 2016 level with hog production expanding 1.5 percent. Although there was an avian flu outbreak in August 2017, timely response by the DA arrested the spread and contained the disease. Poultry's output grew 4.6 percent in 2017 compared to the previous year's level with chicken production gaining 4.3 percent.

As of December 2016 (latest data available), there were roughly 575 feed mills registered with the Philippine Bureau of Animal Industry (BAI). Roughly 85 percent of total feedmills were considered commercial. Trade contacts estimate overall feed production to be much larger reaching roughly 11.75

million tons in 2016. Post finds this to be conservative and concurs with the findings of the 2018 Alltech Global Feed Survey which estimates the number of Philippine feed producers at 3,000 mills with output reaching 17.4 million tons.

Hog feeds account for close to 60 percent of overall feed production; poultry feeds roughly 25 percent; and 15 percent aquaculture and other animal feeds.

SBM demand is expected to increase through MY 18/19 as local livestock and poultry raisers capitalize on growing consumption of meat and meat products (the by-product of an expanding economy). MY 18/19 SBM demand is forecast to grow 100,000 tons from the previous MY reaching 3.0 million tons.

As mentioned in previous annual reports, copra meal is not a protein substitute for SBM and is used primarily as feed ‘filler’. Because of this, it is not commonly used in large amounts by serious commercial hog raisers. Postharvest handling facilities also result in quality issues such as aflatoxin contamination as well as considerable copra meal spoilage losses. Copra meal consumption (inclusive of losses) in MY 17/18 was revised upward 30,000 tons to 440,000 tons due to upward revisions made to copra meal production during the period. Copra meal demand is forecast to reach 450,000 tons in MY 18/19, higher by 10,000 tons compared to the previous year’s level, on increased export demand for CNO and domestic feed consumption.

On the other hand, distillers dried grains with solubles (DDGS) are mainly used in integrated hog and poultry operations. According to industry, DDGS inclusion levels are typically 3 to 8 percent for broiler feed, 5 to 15 percent for layer feed and 3 to 10 percent for swine feed. Total maximum DDGS demand in the Philippines is estimated at 530,000 tons at the maximum inclusion levels. Consistency and color are concerns raised by local contacts over the use of DDGS.

**Trade:**

According to U.S. Customs data, Philippine SBM imports from the United States reached \$747 million in 2017, the highest ever, making the country the largest market in the world for U.S. SBM.

Strong feed demand by the local livestock and poultry industries in the next two years is expected to drive SBM imports to record levels in MY17/18 and MY 18/19 (2.75 million tons and 2.9 million tons, respectively). The United States is expected to maintain its leading market share position, enhanced by less competition from Argentina which is facing a drought.

Copra meal exports in MY 17/18 were revised upward by 20,000 tons to 400,000 tons due to improved copra supply. Exports are likely to increase anew in MY 18/19 to 420,000 tons. Korea and Vietnam are expected to be the top destinations for Philippine copra meal exports through MY 18/19.

For DDGS, from 170,000 tons in 2016, Philippine imports declined 18 percent to 140,000 tons in 2017, according to Philippine customs data. DDGS from the United States dominated imports (99 percent) during the period.

**Stocks:**

SBM inventories are relatively flat over the series averaging about 280,000 tons as the bulk of supply is used for feed to fuel an expanding poultry and livestock sector. SBM stocks are mainly held in storage by the private sector (e.g., traders and feed millers).

Copra meal stocks were revised upwards by 30,000 tons to 223,000 tons in MY 17/18 reflecting upward adjustments made to copra meal production during the year. Copra meal stocks are likely to increase by 10,000 tons to 233,000 tons in MY 18/19 as copra meal production continues to improve. Like SBM, copra meal inventories are largely private sector held.

**Policy:**

Imports of copra meal (HS Code 2306.50.00) will continue to be levied a 10 percent MFN tariff in 2018. On the other hand, imported SBM (HS Code 23.04) and DDGS (HS Code 230330) both carry a zero percent and 1 percent MFN duty, respectively. However, they can be brought in duty-free under the AFMA if they are inspected and certified by BPI and the BOC. Copra meal, SBM, and DDGS imports are duty-free in the ASEAN Free Trade Area (AFTA), except those under the AIFTA (which has a 10 percent tariff).

Signed by President Duterte on December 19, 2017, the TRAIN took effect January 1, 2018 and is the first of up to five planned tax reform packages. RA 10963 cuts personal income tax, estate and donors tax rates, while increasing and/or imposing new taxes on fuel, automobiles, electricity, sugar-sweetened beverages, among others. As much as P90 billion (\$1.8 billion) in additional revenues this year are expected, increasing to P785 billion (\$15.7 billion) by 2022 as a result of the tax reform program, according to press reports. Around 70 percent of the incremental revenues will be channeled to the GPH’s infrastructure program. More information is provided in:

<http://www.build.gov.ph/>

The GPH asserts that with the income tax cuts, more disposable income will be available for around 99 percent of Filipino taxpayers (e.g. minimum wage earners are free of income tax under the TRAIN). Critics of the TRAIN, however, point to increasing prices and higher inflation as a result of higher fuel prices as a deterrent to increased consumption.

**Production, Supply and Demand Data Statistics:**

| Meal, Soybean<br>Market Begin Year | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|------------------------------------|---------------|----------|---------------|----------|---------------|----------|
|                                    | Jan 2017      |          | Jan 2018      |          | Jan 2018      |          |
| Philippines                        | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Crush                              | 161           | 161      | 160           | 160      | 0             | 165      |
| Extr. Rate, 999.9999               | 0.7826        | 0.7826   | 0.7875        | 0.7875   | 0             | 0.7636   |
| Beginning Stocks                   | 365           | 365      | 289           | 289      | 0             | 265      |
| Production                         | 126           | 126      | 126           | 126      | 0             | 126      |
| MY Imports                         | 2648          | 2648     | 2750          | 2750     | 0             | 2900     |
| Total Supply                       | 3139          | 3139     | 3165          | 3165     | 0             | 3291     |
| MY Exports                         | 0             | 0        | 0             | 0        | 0             | 0        |
| Industrial Dom. Cons.              | 0             | 0        | 0             | 0        | 0             | 0        |
| Food Use Dom. Cons.                | 0             | 0        | 0             | 0        | 0             | 0        |
| Feed Waste Dom. Cons.              | 2850          | 2850     | 2900          | 2900     | 0             | 3000     |

|                           |      |      |      |      |   |      |
|---------------------------|------|------|------|------|---|------|
| <b>Total Dom. Cons.</b>   | 2850 | 2850 | 2900 | 2900 | 0 | 3000 |
| <b>Ending Stocks</b>      | 289  | 289  | 265  | 265  | 0 | 291  |
| <b>Total Distribution</b> | 3139 | 3139 | 3165 | 3165 | 0 | 3291 |
|                           |      |      |      |      |   |      |
| (1000 MT) ,(PERCENT)      |      |      |      |      |   |      |

| Meal, Copra<br>Market Begin Year<br>Philippines | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|---|---------------|----------|---------------|----------|---------------|----------|
|   | Oct 2016      |          | Oct 2017      |          | Oct 2018      |          |
|   | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| <b>Crush</b>                                    | 2320          | 2350     | 2350          | 2650     | 0             | 2750     |
| <b>Extr. Rate, 999,9999</b>                     | 0.3233        | 0.3191   | 0.3277        | 0.3208   | 0             | 0.32     |
| <b>Beginning Stocks</b>                         | 148           | 148      | 213           | 213      | 0             | 223      |
| <b>Production</b>                               | 750           | 750      | 770           | 850      | 0             | 880      |
| <b>MY Imports</b>                               | 0             | 0        | 0             | 0        | 0             | 0        |
| <b>Total Supply</b>                             | 898           | 898      | 983           | 1063     | 0             | 1103     |
| <b>MY Exports</b>                               | 288           | 288      | 380           | 400      | 0             | 420      |
| <b>Industrial Dom. Cons.</b>                    | 0             | 0        | 0             | 0        | 0             | 0        |
| <b>Food Use Dom. Cons.</b>                      | 0             | 0        | 0             | 0        | 0             | 0        |
| <b>Feed Waste Dom. Cons.</b>                    | 397           | 397      | 410           | 440      | 0             | 450      |
| <b>Total Dom. Cons.</b>                         | 397           | 397      | 410           | 440      | 0             | 450      |
| <b>Ending Stocks</b>                            | 213           | 213      | 193           | 223      | 0             | 233      |
| <b>Total Distribution</b>                       | 898           | 898      | 983           | 1063     | 0             | 1103     |
|   |               |          |               |          |               |          |
| (1000 MT) ,(PERCENT)                            |               |          |               |          |               |          |

### Commodities:

Oil, Soybean

Oil, Coconut

### Production:

Philippine SBO production continues to be insignificant relative to overall Philippine vegetable oil production, and is supported largely by imported beans. No change in SBO production is expected through MY 18/19.

CNO output in MY 17/18 was raised 185,000 tons to 1.645 million tons reflecting improved copra production during the period. For MY 18/19, CNO output is expected to expand further to 1.7 million

tons consistent with the projected increase in copra production as a result of the return to more “normal” weather conditions.

**Consumption:**

SBO is mainly used for mayonnaise and salad dressings, and the local industry does not consider it to be a complete CNO substitute. Food use of SBO is minimal relative to overall edible oil usage.

SBO consumption, however, was revised downward 17,000 tons to 60,000 tons in MY 16/17, and 10,000 tons to 65,000 tons again in MY17/18, due to increased palm oil utilization. Despite the downward adjustments, SBO demand is expected to reach 70,000 tons in MY 18/19 due to a flourishing retail food industry.

CNO is used as a raw material in making margarine, shortening, and milk fat substitutes and in biscuit and cracker production. Consistent with industry’s expectation of a reduction in CNO edible use by more competitively-priced, imported palm oil, CNO food use was revised downward 35,000 tons to 180,000 tons in MY17/18, which is still a 14 percent decline from 210,000 tons in MY16/17. As reported in the previous annual report, the shifting away from CNO to palm oil for food use consumption has intensified in recent years. The same trend is expected to extend through MY 18/19 by which time CNO edible use is forecast at 170,000 tons.

Industrial CNO consumption is mainly composed of coconut methyl ester (CME) and other oleochemical production. Implemented in 2007, the Philippines has a Biofuels Law that mandates the blending of biodiesel in all-petroleum diesel sold in the country. CME is used in Philippine biodiesel production. The current blend is at two percent and at this level, requires roughly 130,000-140,000 tons of CNO. No change in biodiesel blend is expected through MY 18/19 as recommended by the attached economic policy study.

Oleochemicals are used in the production of laundry detergents and other personal care items such as toothpaste, soap bars, shower cream, and shampoo. Oleochemicals used for these purposes are likely to increase modestly in the next two years due to the rapidly growing population and strong export demand. As a result, industrial CNO demand was revised upward 10,000 tons to 390,000 tons in MY17/18 and expected to grow to 400,000 tons in MY 18/19.

However, overall CNO demand was adjusted downwards 25,000 tons to 580,000 tons in MY17/18. No significant change in total CNO demand is expected in MY 18/19 due to increased use of palm oil for food use consumption.

**Trade:**

SBO imports in MY16/17 were adjusted downwards based on GTA exporter data. Imports in MY 17/18 were pared down 7,000 tons to 38,000 tons and are relatively flat in MY 18/19, increasing slightly to 40,000 tons.

For MY 17/18, CNO exports are anticipated to increase 130,000 tons from the previous market year to 1.05 million tons as copra supply improves, the export market continues to expand, and from the

strengthening of the U.S. dollar. Substantial imports of palm oil for food use are expected to enable higher CNO exports.

Industry forecasts palm oil imports to be at least 1.0 million tons in 2018 citing the wide price differential between CNO and palm oil. Palm oil imports in 2017, based on GTA exporter data reached over 1.4 million tons.

Post expects CNO exports in MY 18/19 to increase modestly (30,000 tons) to 1.08 million tons on the back of improved copra supply.

**Stocks:**

SBO inventories are negligible and no significant change in SBO stock levels are projected through MY 18/19. SBO stocks are private sector held.

For CNO, stocks are likely to increase modestly in the next two years reaching 125,000 tons in MY 18/19 primarily due to increasing copra production during the period. The majority of CNO stocks are with private processors and traders.

**Policy:**

EO 61 raised tariffs for crude CNO (HS Code 15.13.1100) from 3 percent to 10 percent through 2015, and is still in effect in 2018. However, imports of CNO are duty-free in the AFTA. Imports of SBO (HS Code 15.07) are subject to a 7 percent MFN duty through 2018 but may also be imported free of duty if originating from ASEAN member countries and countries with ASEAN-FTAs (except India which levies a 7 percent duty).

Palm oil imports (HS Code 15.11) in 2018 are levied a 15 percent MFN tariff under EO 61, but are duty-free in the AFTA.

**Production, Supply and Demand Data Statistics:**

| Oil, Soybean<br>Market Begin Year<br>Philippines | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Jan 2017      |          | Jan 2018      |          | Jan 2018      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Crush  | 161           | 161      | 160           | 160      | 0             | 165      |
| Extr. Rate, 999.9999                             | 0.1863        | 0.1863   | 0.1875        | 0.1875   | 0             | 0.1818   |
| Beginning Stocks                                 | 9             | 9        | 7             | 2        | 0             | 5        |
| Production                                       | 30            | 30       | 30            | 30       | 0             | 30       |
| MY Imports                                       | 45            | 23       | 45            | 38       | 0             | 40       |
| Total Supply                                     | 84            | 62       | 82            | 70       | 0             | 75       |
| MY Exports                                       | 0             | 0        | 0             | 0        | 0             | 0        |
| Industrial Dom. Cons.                            | 4             | 0        | 0             | 0        | 0             | 0        |
| Food Use Dom. Cons.                              | 73            | 60       | 75            | 65       | 0             | 70       |
| Feed Waste Dom. Cons.                            | 0             | 0        | 0             | 0        | 0             | 0        |

|                           |    |    |    |    |   |    |
|---------------------------|----|----|----|----|---|----|
| <b>Total Dom. Cons.</b>   | 77 | 60 | 75 | 65 | 0 | 70 |
| <b>Ending Stocks</b>      | 7  | 2  | 7  | 5  | 0 | 5  |
| <b>Total Distribution</b> | 84 | 62 | 82 | 70 | 0 | 75 |
|                           |    |    |    |    |   |    |
| (1000 MT) ,(PERCENT)      |    |    |    |    |   |    |

| Oil, Coconut<br>Market Begin Year<br>Philippines | 2016/2017     |          | 2017/2018     |          | 2018/2019     |          |
|--|---------------|----------|---------------|----------|---------------|----------|
|  | Oct 2016      |          | Oct 2017      |          | Oct 2018      |          |
|  | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| <b>Crush</b>                                     | 2320          | 2350     | 2350          | 2650     | 0             | 2750     |
| <b>Extr. Rate, 999.9999</b>                      | 0.6293        | 0.6213   | 0.6298        | 0.6208   | 0             | 0.6182   |
| <b>Beginning Stocks</b>                          | 130           | 130      | 70            | 70       | 0             | 85       |
| <b>Production</b>                                | 1460          | 1460     | 1480          | 1645     | 0             | 1700     |
| <b>MY Imports</b>                                | 0             | 0        | 0             | 0        | 0             | 0        |
| <b>Total Supply</b>                              | 1590          | 1590     | 1550          | 1715     | 0             | 1785     |
| <b>MY Exports</b>                                | 920           | 920      | 850           | 1050     | 0             | 1080     |
| <b>Industrial Dom. Cons.</b>                     | 380           | 380      | 380           | 390      | 0             | 400      |
| <b>Food Use Dom. Cons.</b>                       | 210           | 210      | 215           | 180      | 0             | 170      |
| <b>Feed Waste Dom. Cons.</b>                     | 10            | 10       | 10            | 10       | 0             | 10       |
| <b>Total Dom. Cons.</b>                          | 600           | 600      | 605           | 580      | 0             | 580      |
| <b>Ending Stocks</b>                             | 70            | 70       | 95            | 85       | 0             | 125      |
| <b>Total Distribution</b>                        | 1590          | 1590     | 1550          | 1715     | 0             | 1785     |
|  |               |          |               |          |               |          |
| (1000 MT) ,(PERCENT)                             |               |          |               |          |               |          |